Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 1999

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation **-** The accompanying general purpose financial statements of the State of Arkansas (the "State") conform with generally accepted accounting principles ("GAAP") for governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for governmental accounting and financial reporting. In addition, GAAP requires that the State's proprietary activities apply GAAP as it is applied by similar business activities in the private sector. The financial statements of the State's colleges and universities have been prepared in accordance with the accounting guidance as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, the *College and University Business Administration*, published by the National Association of College and University Business Officers ("NACUBO"), and pronouncements issued by the GASB.

The general purpose financial statements have been prepared primarily from accounts maintained by the Department of Finance and Administration and the State Treasurer. Additional data has been derived from the audited financial statements of certain entities and from reports and data prescribed by the Department of Finance and Administration, Office of Accounting. These prescribed reports and data were prepared by various State agencies and departments based on independent or subsidiary accounting records maintained by them.

The Reporting Entity - For financial reporting purposes, the State of Arkansas' primary government includes all funds, account groups, departments and agencies, boards, commissions, and authorities that make up the State's legal entity. The State's reporting entity also is comprised of its component units; legally separate organizations for which the State's elected officials are financially accountable.

Individual Component Unit Disclosures - GAAP defines component units as those entities which are legally separate organizations for which the State's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading and incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions; or discrete presentation of the component units' financial data columns separate from the State's balances and transactions.

Blended Component Units **-** The State has no blended component units.

Discretely Presented Component Units **-** Discrete component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Arkansas Student Loan Authority ("ASLA") and Arkansas Development Finance Authority ("ADFA") meet the criteria of discretely presented component units because they are legally separate, and the State is financially accountable. The Component Units column of the combined financial statements include the financial data of the following entities:

> ***Arkansas Student Loan Authority*** **-** ASLA was established pursuant to Act 873 of 1977, as amended. The purpose of ASLA is to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. The students attend qualified Arkansas educational institutions or are Arkansas residents who attend qualified institutions located outside the State of Arkansas.

> ***Arkansas Development Finance Authority*** - ADFA provides financing through the issuance of taxable and tax-exempt bonds for housing, industry, local governments, education, agricultural enterprises, health care, infrastructure projects, jails and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture and exporting.

Component Unit Financial Statements - Complete financial statements of each of the discretely presented component units can be obtained by contacting their respective administrative office.

Arkansas Student Loan Authority	Arkansas Development Finance Authority
101 East Capitol, Suite 401	100 Main Street, Suite 200; P.O. Box 8023
Little Rock, AR 72201	Little Rock, AR 72203

Fund Structure - The financial activities of the State are accounted for in individual funds and account groups. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. These are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Individual funds of the primary government are classified in four fund categories: governmental, proprietary, fiduciary and higher education.

Account groups are accounting entities used to account for the State's general fixed assets and long-term debt. These account groups are not funds because they do not reflect available financial resources and related liabilities.

The following describes the fund categories and account groups used in the accompanying general purpose financial statements:

Governmental Funds

<u>General Fund</u> - The general fund is the general operating fund of the State. It is used to account for all financial resources obtained and spent for those services normally provided by the State which are not accounted for in other funds.

Proprietary Fund

<u>Enterprise Fund</u> - This fund is used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The enterprise funds consist of the Workers' Compensation Commission ("WCC") which is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment, the Construction Assistance Revolving Loan Fund, which is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities, the Other Revolving Loan Funds, which are responsible for the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation of water systems and for the financing of capitalizable educational and general projects for community and technical colleges.

Fiduciary Funds

<u>Trust and Agency Funds</u> - These funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations or other funds. These funds include expendable trust,

pension trust and agency funds. Pension trust funds are accounted for on the accrual basis. Expendable trust funds are accounted for in the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Higher Education Fund

The financial statements of Higher Education have been prepared with the accounting guidance and reporting practices applicable to colleges and universities, as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, the *College and University Business Administration*, published by the NACUBO and pronouncements issued by the GASB.

Current Funds - These funds are used to account for resources that will be expended in the near term for operating purposes of the institutions. These include (1) unrestricted funds over which the governing boards retain full control in achieving the institutions' purposes, and (2) restricted funds which may be utilized only in accordance with externally restricted purposes.

Fiduciary Funds - These funds are used to account for assets held by loan, endowment, life income and agency funds in which the universities act in a fiduciary capacity.

Plant Funds - These funds are used to account for institutional property acquisition, renewal, replacement, debt service and investment.

Agency Funds - These funds are used to account for amounts held in custody for students, university-related organizations and others.

The Combined Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes in Fund Balances is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

Account Groups

General Fixed Assets - This account group is used to account for all fixed assets (excluding infrastructure) that are not accounted for in the proprietary fund, pension trust funds, higher education fund or component units.

General Long-Term Debt - This account group includes the unmatured portion of the long-term general obligation debt which is to be financed from governmental funds. Also included in this group are long-term liabilities resulting from capital lease obligations, notes payable, claims and judgments, compensated absences and unfunded pension costs.

Discretely Presented Component Units

The State's discretely presented component units conduct business-like activities that provide goods/services to the public, other governmental units and the State, and are financed primarily through user charges. The measurement focus of these entities is upon determination of net income, financial position and cash flows.

Basis of Accounting - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus as described below. The revenue, expenditure and expense recognition policies have been applied in the determination of the related assets and liabilities at June 30, 1999.

Governmental and expendable trust funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State's revenue recognition policies conform to the provisions of GASB Statement No. 22, *Accounting for Tax-Payer Assessed Tax Revenues in Governmental Funds*. Significant revenues susceptible to accrual include income, sales, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from federal grants are recognized when the related expenditures have been incurred. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred except (1) inventories generally are recorded as expenditures when purchased, and (2) principal and interest on long-term debt are recorded when paid.

The accrual basis of accounting with a flow of economic resources measurement focus is utilized in the proprietary fund, pension trust funds, higher education fund and discretely presented component units. Under this accounting basis, revenues are recognized when earned and expenses are recognized when incurred. For the pension trust funds, employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

The State and the discretely presented component units have adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting*. As permitted by the statement, the State has elected not to adopt Financial Accounting Standards Board ("FASB") Statements issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

Consistent with current GAAP for public colleges and universities, depreciation on higher education physical or plant assets is not recorded, and revenue and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted.

Agency funds are custodial in nature (assets equal liabilities) and are accounted for on a modified accrual basis of accounting.

***Budgetary Basis of Accounting* -** The State's budget is adopted in accordance with a statutory cash basis of accounting which is not in accordance with GAAP. Revenues are recognized when cash is received and deposited in the State Treasury or reported to the Department of Finance and Administration. Expenditures are recorded when cash is disbursed. If goods or services are not received before year end, all encumbrances lapse, except those appropriations for multi-year projects.

***Cash and Cash Equivalents* -** Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, all certificates of deposit and all short-term instruments with maturities at purchase of ninety days or less. Short-term investments are stated at fair value, except for agency funds not held for investment purposes which are reported at amortized cost.

Investments **-** Investments include U.S. Government and government agency obligations, repurchase agreements, state and local government obligations and corporate debt and equity obligations. Investments are reported at fair value, except for agency fund investments not held for investment purposes, which are reported at amortized cost. The General and Higher Education Fund Investments are stated at fair value as determined by independent quoted market sources.

Investments in the pension trust funds are reported at fair values as determined by the custodial agents. The agents determination of fair value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Realized and unrealized gains and losses on investments are included in investment earnings on the respective operating statement.

The University of Arkansas System (the "System") has established an investment pool (the "Pool"). The investments in the Pool are governed by the System Investment Policy, which was established by the University of Arkansas Board of Trustees. The Pool is not SEC-registered. Participation in the Pool is voluntary. At June 30, 1999, four universities and two foundations participated in the Pool. These foundations hold 61% or $274 million of the investments in the Pool, which are reported separately along with the related liability in an agency fund. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. The Pool issues a publicly available financial report, which may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas, 72207-3608, (501) 686-2500.

Receivables **-** Receivables in the State's governmental fund consist primarily of taxes, loans, interest and federal grants. The remaining governmental fund revenues are not considered susceptible to accrual prior to receipt. Receivables in all other funds have arisen in the ordinary course of business.

Interfund Transactions **-** The State has three types of interfund transactions:

- Operating appropriations. These are accounted for as operating transfers in the funds involved.
- Residual equity transfers. These are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from fund equity.
- Quasi-external transactions. Charges or collections for services rendered by one fund to another are recorded as revenues in the receiving fund and expenditures/expenses of the disbursing fund.

Inventories **-** Inventories of materials and supplies are valued at cost, principally using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when purchased. Inventory balances are recorded as a reserve of fund balance indicating that they do not constitute "available spendable resources."

Fixed Assets **-** Purchases of general fixed assets of the governmental funds are recorded as expenditures of those funds, with the related assets recorded in the General Fixed Asset Account Group. General fixed assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value or estimated fair market value at the time of the donation. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Public domain general fixed assets ("infrastructure"), consisting of roads, bridges, streets, sidewalks, drainage systems and lighting systems, are not capitalized as these assets are immovable and of value only to the government. Assets in the General Fixed Asset Account Group are not depreciated.

Fixed assets held in the enterprise funds and discretely presented component units have been valued in the same manner as the General Fixed Asset Account Group. The fixed assets of these funds are depreciated on a straight-line basis over their estimated useful lives. Buildings are depreciated over various lives, ranging from 20 to 50 years, machinery and equipment 3 to 35 years and vehicles 5 years.

Contributed Capital - The Revolving Loan Funds record contributed capital for federal and state grants used to fund the programs. As grants are received, the State recognizes such grants as direct contributions to equity.

Compensated Absences **-** The amount of compensated absences to be paid from future resources is reported in the General Long-Term Debt Account Group. Vested or accumulated vacation leave of the proprietary, higher education fund and component units is recorded as an expense and an accrued liability of these funds as the benefits accrue to employees.

Equity - Reserves represent those portions of equity that are not available for appropriation or legally segregated for a specific future use.

Total Columns (Memorandum Only) - Total columns on the general purpose financial statements are captioned “memorandum only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in accordance with generally accepted accounting principles, nor is such data comparable to a consolidation.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Future Adoption of Accounting Pronouncements - The GASB has issued Statement of Governmental Accounting Standards No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments,* which the State has not yet adopted. The requirements of this Statement are effective in three phases based on the State’s total annual revenues in the first fiscal year ending after June 30, 1999. The State will be required to implement GASB 34 effective for the fiscal year ending June 30, 2002.

NOTE 2: BUDGETARY BASIS REPORTING - BUDGETARY PROCESS

State finance law requires that a balanced budget be approved by the Governor and the General Assembly. The Governor presents an annual budget to the General Assembly which includes an estimate of revenues, expenditures and other financing sources and uses anticipated during the coming biennial period. The General Assembly, which has full authority to amend the budget, adopts a line item budget by appropriating monies in biennial appropriation acts. The State does not adopt a revenue budget but does monitor the revenues and forecast of revenues and makes appropriate revisions to the expenditure budget based on such forecasts. These forecasts are adjusted quarterly to reflect actual receipts of revenues.

Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Further changes to the budget established in the biennial appropriation may be made via supplemental appropriation acts or other subsequent legislative acts. These also must be approved by the General Assembly and signed by the Governor and are subject to the line item veto.

The General Assembly also must enact legislation pursuant to the Revenue Stabilization Law (the “Stabilization Law”) to provide an allotment process of funding appropriations in order to comply with the state law prohibiting deficit spending. The Governor may restrict spending to a level below appropriations amounts. The State uses specific “internal sub funds” (i.e. general and special revenue allotment accounts) for receipt and distribution of revenues. Pursuant to the Stabilization Law, all receipts are deposited in the General Revenue Allotment Account. From the General Revenue Allotment Account, 3% of all revenues are distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State's elected constitutional offices (legislators, executive department and judges), their staffs and the Department of Finance and Administration ("DF&A"). The balance is then distributed to separate funds proportionately as established by the Stabilization Law. Special revenues are deposited into the Special Revenue Allotment Account from which 3% of revenues collected by DF&A and 1 1/2% of all special revenues collected by other agencies are first distributed to provide support for the State's elected officials, their staffs and DF&A. The balance is then distributed to the funds for which the special revenues were collected as provided by law. Special revenues, which are primarily user taxes, are generally earmarked for the program or agency providing the related service.

General revenues are transferred into funds established and maintained by the Treasurer for major programs and agencies of the State in accordance with funding priorities established by the General Assembly.

Pursuant to the Stabilization Law, the General Assembly establishes three levels of priority for general revenue spending levels, "A," "B" and "C". Successive levels of appropriations are funded only in the event sufficient revenues have been generated to fully fund any prior level. Accordingly, appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs or agencies' funds maintained by the Treasurer or the maximum appropriation by the General Assembly.

Each of these legally adopted internal sub-funds are accounted for on the cash basis. All prior fiscal year unpaid bills or claims that did not have sufficient funds and appropriation at the end of the fiscal year may be submitted by the agency to the Claims Commission. Upon approval of the claims, funds are appropriated in the following biennium to allow for payment, unless the claims are approved during a special session of the legislature.

The majority of the State's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the General Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, the General Assembly may direct that certain revenues be retained and made available for spending within a specific appropriation account.

The rate of spending of appropriations is controlled by DF&A. DF&A utilizes quarterly allotments which restrict spending to a certain percentage of the annual appropriation. The percentage is established to coincide with the expected actual rate of revenue collections, thereby ensuring adequate cash flow throughout the year.

DF&A has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation line item basis. Budgetary control is maintained through the Arkansas Accounting Federal Grants Management System ("AFGM"). AFGM ensures that expenditures are not processed if they exceed the appropriation line item's total available spending authorization, which is considered its budget. Generally, expenditures may not exceed the level of spending authorized. However, Arkansas law authorizes DF&A to transfer specific holding appropriations when other sources of funding are received, such as a federal grant.

An AFGM report, internally identified as AFGM R5901, is used by DF&A to monitor spending against budget. This report provides information at the individual appropriation line item level, which is the legal level of budgetary control, and is available from DF&A. For financial reporting, the State groups these appropriation account categories by function to conform to its organizational structure.

The State uses the General Fund to summarize the internal sub-funds, which represent accounts or activities that have been legally appropriated.

The following is a reconciliation of the statutory cash basis excess of revenues and other sources over expenditures and other uses of the General Fund to the GAAP basis excess of revenues and other sources over expenditures and other uses presented in the financial statements (expressed in thousands):

Excess of revenues and other sources over expenditures and other uses (statutory basis)	$105,709
Non-appropriated excess of expenditures and other uses over revenues and other sources	5,031
Basis of accounting differences	(69,885)
Excess of revenues and other sources over expenditures and other uses (GAAP basis)	$ 40,855

Supplemental appropriations of $119 million were required during the fiscal year ended June 30, 1999.

NOTE 3: DEPOSITS AND INVESTMENTS

Cash

Arkansas Code requires that all cash fund agencies, other than the institutions of Higher Education, abide by the cash management and investments standards and procedures promulgated by the State Board of Finance. The stated primary goal of State cash management is the protection of principal, while maximizing investment earnings and minimizing non-interest bearing balances.

Cash and cash equivalents are defined as short-term highly liquid investments with original maturities of ninety days or less. The reported amount of total deposits at June 30, 1999, is as follows (expressed in thousands):

	Primary Government	Component Units
Reported amount of deposits	$ 900,747	$ 6,294
Bank balance of deposits	1,128,629	7,604
Amount insured or collateralized with securities held by the State or its agent in the State's name	973,593	4,634
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the State's name	92,297	
Uncollateralized, or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the State's name	62,739	2,970

The following schedule reconciles the reported amount of deposits as disclosed above to the combined balance sheet (expressed in thousands):

	Primary Government	Component Units
Reported amount of deposits	$ 900,747	$ 6,294
Cash on hand	1,453	
Undeposited receipts	26,445	
Cash held at U.S. Treasury	241,764	
Investments disclosed as cash equivalents for GASB 3	(3,000)	(1,000)
Cash equivalents disclosed as investments for GASB 3	1,576,317	150,644
Cash and cash equivalents as reported on the combined balance sheet	$ 2,743,726	$ 155,938

Investments

State funds are invested by the Treasurer, as well as various state agencies, including the Retirement Systems, institutions of Higher Education, and Discretely Presented Component Units. Permissible investments include those guaranteed by the United States of America, its agencies, and instrumentalities (U.S. Government obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities.

Purchased and donated investments are generally stated at fair value, while investments held in an agency capacity and not for investment purposes are reported at amortized cost. In accordance with Statement No. 3 of the GASB, the State's investments are categorized to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the State's name.

Primary Government -

Investments for the Primary Government at June 30, 1999, by security type and level of risk, are as follows (expressed in thousands):

Security Type	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Categorized:					
U.S. Government securities	$ 1,748,878	$ 1,220	$209,172	$ 1,959,270	$ 1,969,740
Corporate securities	6,870,949		252,184	7,123,133	7,125,941
International securities	1,052,412		22,229	1,074,641	1,074,641
Repurchase agreements	125,987		112,180	238,167	238,167
Bank obligations			234,243	234,243	234,243
State and local government securities	38,267			38,267	39,665
Other categorized	109,116	253	836	110,205	110,205
Total Investments Categorized by Security Type	$ 9,945,609	$ 1,473	$830,844	10,777,926	10,792,602
Uncategorized:					
Mutual funds				1,361,232	1,361,232
Securities lent for cash collateral				1,375,452	1,375,452
Commingled funds				879,758	879,758
Mortgage obligations				135,468	135,468
Real estate				44,358	44,358
Limited partnership investment				536,122	536,122
Private placements				16,393	16,393
Investment pool				875,549	875,549
Guaranteed investment contract				31,304	31,304
Other investments				3,364	3,364
Total				$ 16,036,926	$ 16,051,602

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of investments	$ 16,036,926
Investments disclosed as cash equivalents for GASB 3	(1,576,317)
Cash equivalents disclosed as investments for GASB 3	3,000
Investments as reported on the combined balance sheet	$ 14,463,609

Component Units -

Investments for the Discretely Presented Component Units at June 30, 1999, by security type and level of risk, are as follows (expressed in thousands):

	Category				
Security Type	1	2	3	Reported Amount	Fair Value
Categorized:					
U.S. Government agency obligations	$632,697		$5,760	$ 638,457	$ 638,457
Commercial paper	252			252	252
Repurchase agreements	9,056			9,056	9,056
Total Investments Categorized by Security Type	$642,005		$5,760	647,765	64,765
Uncategorized:					
Investment agreements				272,456	272,456
Mutual funds				150,644	150,644
Total				$1,070,865	$1,070,865

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of investments	$ 1,070,865
Investments disclosed as cash equivalents for GASB 3	1,000
Cash equivalents disclosed as investments for GASB 3	(150,644)
Investments as reported on the combined balance sheet	$ 921,221

NOTE 4: DERIVATIVES

Primary Government -

Forward Currency Contracts

Arkansas Public Employees Retirement System ("APERS") and Arkansas Teacher Retirement System ("Teacher") enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in the value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net realized gain or loss on forward currency contracts in the statement of changes in plan net assets. At June 30, 1999, the retirement systems referred to above were party to outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of $93.9 million, collectively. Market values of these outstanding contracts were $96.4 million resulting in an unrealized net gain of approximately $2.5 million. The retirement systems also had outstanding forward currency contracts to sell foreign currency with contract amounts of $148.4 million at June 30, 1999. Market values of these contracts were $150.2 million resulting in an unrealized net loss of approximately $1.8 million.

Mortgage-Backed Securities

APERS, Teacher, and Arkansas State Highway Employees Retirement System ("ASHERS"), invest in various asset-backed securities, mortgage-backed securities, and structured corporate debt. These securities are reported at fair value in the balance sheet. They are also included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of custodial credit risk (see Note 3 on Deposits and Investments). The retirement systems referred to above invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

Component Units -

Mortgage-Backed Securities

ADFA invests in various asset and mortgage-backed securities. These securities are reported at fair value in the combined balance sheet. They are also included in the totals of U.S. Government and Agency securities in the disclosure of custodial credit risk. ADFA invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

Interest Rate Swaps

ASLA has entered into an interest rate swap agreement to effectively convert $32.7 million of fixed rate debt to variable rate debt with a weighted average interest rate based on the PSA Municipal Swap Index. The effective interest rate of the debt was 4.4% for the period ended June 30, 1999. The differential to be paid or received on the interest rate swap is accrued as interest rates change and is charged or credited to interest expense over the life of the agreement. ASLA's credit risk related to this interest rate swap agreement is generally the differential, if any, payable by the counterparty which accumulated prior to the June 1, and December 1, settlement dates each year. The ASLA is exposed to interest rate risk under the swap agreement and will incur interest expense above the related bond interest rates if the weighted PSA Municipal Swap Index rate exceeds 4.84%. The related PSA Municipal Swap Index rate was 3.31% at June 30, 1999. The interest rate swap agreement is set to expire June 1, 2003.

NOTE 5: SECURITIES LENDING ARRANGEMENTS

State Police, Teacher and APERS participate in security lending programs, as authorized by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 12, whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents or other securities guaranteed by the U.S. Government or an agency thereof equal to at least 100% of the full market value of the security loaned. At all times during the term of each loan, the total value of the collateral is not to be less than 95% of the full market value of all securities on loan. The program is administered by custodial agent banks. The Code does not specify the types of securities that may be loaned. The type of securities on loan at June 30, 1999, includes domestic and international equities, domestic and international corporate fixed income securities, U.S. Treasury securities, government agency securities and non U.S. sovereigns. Securities on loan at fiscal year end for cash collateral are uncategorized in the preceding summary of deposits and investments (Note 3); securities on loan for non-cash collateral are classified by category of custodial credit risk based on the categorization appropriate for the collateral. With the exception of cash collateral, the pensions do not have the ability to pledge or sell the collateral unless there is borrower default. The pensions invest cash collateral received; accordingly, investments made with cash collateral received appear as assets on the Statement of Plan Net Assets and Combined Balance Sheet. As the pensions must return the cash collateral to the borrower upon expiration of the loan, a corresponding liability is recorded in accrued and other liabilities. At June 30, 1999, cash collateral and investments made with cash collateral was approximately $1.41 billion. These securities have also been classified in the preceding summary of deposits and investments (see Note 3). The weighted average maturity of collateral investments generally does not match the maturity of the loans. The custodial agents provide the pensions with an indemnification if an insolvency causes the borrower to fail to return the securities lent. However, in the history of the pensions' participation in such programs, no losses resulting from default have occurred. Total securities on loan at June 30, 1999, was $1.39 billion and total collateral received for these securities on loan was $1.43 billion.

NOTE 6: RESTATEMENT OF PRIOR YEAR FUND EQUITY

Fund equity and other credits at June 30, 1998, has been restated as follows (expressed in thousands):

	Proprietary	Component Units
Fund equity:		
Balance as previously reported	$102,490	$152,072
Restatement - correction of prior years amounts	11,627	(9,796)
Balance as of June 30, 1998, as adjusted	$ 114,117	$ 142,276

	Retained Earnings	Contributed Capital	Total
Proprietary detail:			
Balance as previously reported	$ (12,014)	$114,504	$102,490
Restatement - correction of prior years amounts	5,696	5,931	11,627
Balance as of June 30, 1998, as adjusted	$ (6,318)	$ 120,435	$ 114,117

Subsequent to the issuance of the State's 1998 general purpose financial statements, management of the State has restated fund equity of the proprietary and component unit funds by approximately $11.6 million to reflect the relationship of the Other Revolving Loan Funds in accordance with the requirements of GASB Statement No. 14, *The Financial Reporting Entity*.

NOTE 7: RECEIVABLES

Receivables at June 30, 1999, consisted of the following (expressed in thousands):

Primary Government -

	Accounts	Taxes	Employer	Employee	Notes and Deposits	Medicaid	Loans	Investment Related	Allowance for Uncollectibles	Net Receivable by Fund Type
General Fund	$ 97,644	$ 280,949			$ 37,595	$ 136,510	$ 142,389	$ 12,705	$ (66,070)	$ 641,722
Enterprise Funds	10,004						171,175	2,539		183,718
Trust and Agency Funds	68,554		$ 9,062	$ 5,369				279,660	(20,039)	342,606
Higher Education Fund	620,018				47,897			2,115	(480,500)	189,530
Total	$ 796,220	$ 280,949	$ 9,062	$ 5,369	$ 85,492	$ 136,510	$ 313,564	$ 297,019	$ (566,609)	$ 1,357,576

Component Units -

	Accounts	Loans	Investment Related	Allowance for Uncollectibles	Net Receivable by Component Unit
ASLA		$ 197,167	$ 3,230	$ (1,725)	$ 198,672
ADFA	$ 3,703	412,145	8,749	(2,942)	421,655
Total	$ 3,703	$ 609,312	$ 11,979	$ (4,667)	$ 620,327

NOTE 8: INTERGOVERNMENTAL ACTIVITY (expressed in thousands)

Interfund Receivables and Payables

	Due from	Due to
General Fund	$ 949	$ 4,251
Trust and Agency Funds -		
Expendable Trust	229	93
Higher Education Fund -		
Current Funds	4,022	856
Total	$ 5,200	$ 5,200

Intrafund Receivables and Payables

	Due from	Due to
Higher Education Fund:		
Current funds	$ 8,196	$ 11,245
Loan	5	
Endowment and similar		1,180
Plant	5,627	1,452
Agency	51	2
Total	$ 13,879	$ 13,879

Advances to/from Other Funds - Primary Government

	Advances to	Advances from
General Fund	$ 16,430	$ 22,923
Trust and Agency Funds -		
Pension Trust - Teacher	22,923	
Higher Education Fund -		
Plant Fund		16,430
Total	$ 39,353	$ 39,353

Operating Transfers

	Operating Transfers In	Operating Transfers Out
General Fund	$ 162	$606,285
Enterprise Fund -		
Workers' Compensation Commission		162
Higher Education Fund:		
Current Funds	547,417	
Loan Fund	535	
Plant Fund	58,333	
Total	$606,447	$606,447

NOTE 9: FIXED ASSETS

Primary Government -

Changes in general fixed assets were as follows (expressed in thousands):

	Balance June 30, 1998	Additions	Deletions	Balance June 30, 1999
Land	$ 167,066	$ 2,920	$ 467	$ 169,519
Buildings	606,878	18,039	534	624,383
Equipment	207,412	22,805	9,254	220,963
Construction in progress	46,545	38,622	14,542	70,625
Total	$1,027,901	$82,386	$24,797	$1,085,490

At June 30, 1999, fixed assets by category in other funds consisted of the following amounts:

	Enterprise Funds	Pension Trust Funds	Higher Education Fund
Land	$ 580		$ 126,873
Buildings	1,634		1,256,677
Equipment	1,429	$ 1,968	434,645
Construction in progress			159,697
Other	158		142,744
Subtotal	3,801		2,120,636
Less: Accumulated Depreciation	(1,309)	(1,018)	-
Total	$ 2,492	$ 950	$ 2,120,636

Component Units -

At June 30, 1999, fixed assets reported in the State's discretely presented component units consisted of the following amounts:

Equipment	$ 1,027
Other	629
Subtotal	1,656
Less: Accumulated Depreciation	(1,161)
Total	$ 495

NOTE 10: SUMMARY OF LONG-TERM DEBT

The State records its long-term liabilities in the General Long-Term Debt Account Group. These liabilities include general obligation bonds, special obligations bonds, notes payable to component units, other debt instruments, capital leases, capital leases with component units, claims and judgments payable in future years, accrued compensated absences, and net pension obligation.

The following schedule shows the changes in the General Long-Term Debt Account Group for the year ended June 30, 1999 (expressed in thousands):

	Balance June 30, 1998	Debt Issued	Debt Paid	Other Changes	Balance June 30, 1999
Bonds:					
General obligation	$400,402		$ 23,166	$ 11,100	$ 388,336
Special obligation	5,795		1,865		3,930
Other debt instruments	7,747		805	200	7,142
Notes payable to component unit	51,995	$2,115	1,855	(25,076)	27,179
Capital leases	27,730	326	1,764		26,292
Capital leases with component unit	80,737		9,630		71,107
Claims and judgments	142,228		25,000	(25,359)	91,869
Compensated absences	61,866			(60)	61,806
Net pension obligation	5,466			(257)	5,209
Total	$783,966	$2,441	$ 64,085	$(39,452)	$ 682,870

Primary Government -

Governmental Fund Type Operations

General Obligation Bonds **-** The Constitution of the State does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose.

General obligation bonds outstanding at June 30, 1999, including accrued accreted interest of approximately $46.1 million on capital appreciation bonds, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rates %	Balance
Soil and Water Conservation Bonds:			
1992A Series Water Resources G.O. Bonds	2021	5.40 - 6.38	$ 17,205
1995A Series Water Resources G.O. Bonds	2024	4.60 - 5.60	4,945
1995B Series Water Resources G.O. Bonds	2025	4.20 - 5.75	7,050
1996A Series Water Resources G.O. Bonds	2017	4.50 - 5.38	11,455
1996B Series Water Resources G.O. Bonds	2025	4.70 - 5.85	7,295
1997A Series Water Resources G.O. Bonds	2026	4.50 - 5.70	14,765
1997B Series Water Resources G.O. Bonds	2026	4.00 - 5.25	14,450
1998 Series Water Resources G.O. Bonds	2027	4.50 - 4.88	9,955
1992B Series Waste Disposal G.O. Bonds	2020	5.00 - 6.25	9,140
1994A Series Waste Disposal G.O. Bonds	2008	4.65 - 5.50	8,320
1995A Series Waste Disposal G.O. Bonds	2025	4.10 - 5.50	2,375
1996A Series Waste Disposal G.O. Bonds	2025	5.10 - 5.63	4,865
1997A Series Waste Disposal G.O. Bonds	2026	4.00 - 5.25	4,915
1998A Series Waste Disposal G.O. Bonds	2027	4.50 - 5.05	10,000
College Savings Bonds:			
1991A Series, G.O. Bonds	2011	6.30 - 7.00	16,620
1991B Series, G.O. Bonds	2012	6.35 - 7.00	24,604
1991C Series, G.O. Bonds	2013	5.90 - 6.90	15,379
1993 Series, G.O. Bonds	2014	5.00 - 5.95	18,260
1995 Series, G.O. Bonds	2015	4.20 - 5.90	21,420
1996A Series, G.O. Bonds	2016	4.00 - 5.65	23,243
1996B Series, G.O. Bonds	2016	4.55 - 6.30	16,779
1996C Series, G.O. Bonds	2016	4.30 - 6.00	27,486
1997A Series, G.O. Bonds	2017	4.60 - 6.05	29,107
1997B Series, G.O. Bonds	2017	4.10 - 5.60	28,222
1998A Series, G.O. Bonds	2017	4.00 - 5.35	40,481
Total			$388,336

Future amounts required to pay principal and interest on general obligation bonds at June 30, 1999, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2000	$ 21,108	$ 12,292	$ 33,400
2001	21,053	12,363	33,416
2002	18,496	14,913	33,409
2003	17,794	15,611	33,405
2004	17,604	16,638	34,242
Thereafter	246,188	229,875	476,063
Total	$ 342,243	$ 301,692	$ 643,935

Details of general obligation bonds outstanding are as follows:

State Water Resources Development General Obligation Bonds - Act 496 of 1981, as amended, authorized the Soil and Water Conservation Commission to issue State Water Resources Development General Obligation Bonds. All bonds issued under the authority of this Act are general obligations of the State of Arkansas and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act limited the total principal amount to $100 million with no more than $15 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of water resources projects in the State of Arkansas approved and implemented by the Arkansas Soil and Water Conservation Commission with the exception of the portion of the Series 1992A and the Series 1996A bonds. A portion of the Series 1992A bonds were issued to refund the outstanding principal amount of the Water Series 1985 bonds. The Series 1996A bonds were issued to defease the outstanding principal of the Water Series 1989A bonds.

State Waste Disposal and Pollution Abatement Facilities General Obligation Bonds - Act 686 of 1987, as amended, authorized the State to issue Waste Disposal and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act limited the total principal amount to $250 million with no more than $50 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of waste disposal and pollution abatement facilities projects in the State of Arkansas with the exception of the Series 1992B and 1994A bonds which were issued to refund the outstanding principal amount of Waste Series 1990A and 1992A bonds, respectively. The bonds are payable from the general revenues of the State, any repayments on project loans and investment earnings on the proceeds of the bonds.

College Savings General Obligation Bonds - Act 683 of 1989, as amended, authorized the State to issue College Savings General Obligation Bonds. All bonds issued under the authority of this act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act provides that no more than $100 million may be issued in any fiscal biennium unless the General Assembly of the State shall, by law, authorize a greater principal amount thereof to be issued. The College Series bonds were issued to provide funds to finance capital improvements projects at State institutions of higher education. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds.

Special Obligation Bonds - Special obligation bonds are issued by various state departments, agencies, and authorities which are part of the primary government. Special obligation bonds are issued pursuant to specific statutory provisions enacted by the Legislature. Principal and interest payments are made from specifically dedicated fees and other revenues generated by the appropriate program. Special obligation bonds do not constitute general debt of the State.

Special obligation bonds outstanding at June 30, 1999, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Arkansas Economic Development Commission - Guaranty Fund Revenue Bonds - 1990 Series	2000	6.50	$ 690
Vocational and Technical Education - Capital Improvement - 1992 A Series	2012	5.80 - 6.38	1,270
Department of Parks and Tourism - State Parks Revenue System - 1971 Series	2000	5.00 - 6.75	530
War Memorial Stadium Commission - Revenue Improvement Bonds - 1995 Series	2000	6.25	1,440
Total			$3,930

Future amounts required to pay principal and interest on special obligation bonds at June 30, 1999, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2000	$1,985	$ 206	$2,191
2001	810	98	908
2002	75	71	146
2003	80	67	147
2004	85	62	147
Thereafter	895	276	1,171
Total	$3,930	$ 780	$4,710

Details of special obligation bonds outstanding are as follows:

Arkansas Economic Development Commission - The $5.3 million Arkansas Economic Development Commission Guaranty Fund Revenue Bonds, Series 1990, dated April 1, 1990, were issued under the authority of Arkansas Code Annotated 15-4-701 and pursuant to a resolution duly adopted by the Arkansas Economic Development Commission. The proceeds from the sale of the bonds were used to replenish monies held in the Commission's Bond Reserve Guaranty Fund. The bonds are payable from earnings derived by the State Board of Finance from investment of State Treasury balances.

Vocational and Technical Education - The capital improvement revenue bonds were issued under the authority of Act 6 of the First Extraordinary Session of 1968, as amended. The bonds are special obligations of the Department of Workforce Education and are payable from and secured solely by pledged revenues and investment earnings on the proceeds of the bonds. The proceeds from the sale of the bonds were used to finance various capital improvements at vocational technical schools.

Department of Parks and Tourism - Act 399 of 1953 authorized the Department to borrow money and issue bonds for the improvement of parks in the State Parks System. The 1971 series bonds debenture is secured by a pledge of gross revenues derived from operation and/or ownership of the State Parks System. This debenture does not constitute an indebtedness for which the faith and credit of the State of Arkansas or any of its revenues are pledged and is not secured by a mortgage or lien on any State Parks System facility. The 1971 bonds were issued to provide financing for a portion of the cost of constructing improvements to various parks in the State Parks System. The bonds are payable from revenues generated by the State Parks System.

War Memorial Stadium Commission - The War Memorial Stadium Commission Stadium Improvement Revenue Bonds Series 1995, dated December 15, 1995, in the amount of $3.15 million were issued under the provisions of Amendment 65 to the Constitution of the State of Arkansas and Arkansas Code Annotated Sections 22-3-1001 *et seq*. for the purpose of financing the cost of acquiring, constructing, and equipping betterments and improvements to War Memorial Stadium located in Little Rock, Arkansas, and paying costs of issuing the bonds. The bonds are payable from net revenues derived by the Commission from the operation of the Stadium.

Other Debt Instruments - Other debt instruments are similar to special obligation bonds in regard to the methods of issuance and the sources of repayment of principal and interest.

Other debt instruments outstanding at June 30, 1999, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Certificates of Indebtedness:			
State Building Services - 1984 Issue "A"	2003	8.50	$1,135
State Building Services - 1984 Issue "C"	2003	8.50	2,761
State Building Services - 1985 Issue "D"	2003	8.50	1,165
State Building Services - 1986 Issue "E"	2003	8.50	111
Arkansas Economic Development Commission Bond Reserve Guaranty Fund - Issues in Default	2013	various	1,970
Total			$7,142

Future amounts required to pay principal and interest on other debt instruments at June 30, 1999, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2000	$ 1,288	$ 522	$ 1,810
2001	1,091	428	1,519
2002	1,148	337	1,485
2003	1,240	238	1,478
2004	1,345	131	1,476
Thereafter	1,030	265	1,295
Total	$ 7,142	$ 1,921	$ 9,063

Details of other debt instruments are as follows:

State Building Services - Act 458 of 1983 authorized State Building Services to issue certificates of indebtedness designated as State Building Services Certificates of Indebtedness. These certificates of indebtedness are special obligations secured solely by a lien on and pledge of specific pledged revenues. The Act limited the total principal amount to $25 million. The proceeds of the sale of certificates of indebtedness were used to construct facilities for the Department of Correction and to construct and equip facilities at State supported institutions of higher education. Debt service requirements are met by certain pledged revenues.

Arkansas Economic Development Commission ("AEDC") - The AEDC Bond Reserve Guaranty Fund is used to guarantee amortization payments on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 1999, total bonds guaranteed by the AEDC Bond Reserve Guaranty Fund amounted to approximately $38.8 million of which bonds totaling approximately $2 million were in default status and are recorded in the General Long-Term Debt Account Group.

Notes Payable to Component Units - Notes payable to component units consist of notes issued to ADFA for construction and renovation of various State agency facilities. Principal and interest payments are made from specifically dedicated fees and other revenue sources. The outstanding balance of the notes payable to component units at June 30, 1999, was approximately $27 million.

Future amounts required to pay principal and interest on notes payable to component units at June 30, 1999, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2000	$ 1,685	$ 2,966	$ 4,651
2001	1,770	2,884	4,654
2002	1,845	2,805	4,650
2003	1,935	2,721	4,656
2004	2,030	2,622	4,652
Thereafter	17,914	20,976	38,890
Total	$27,179	$34,974	$62,153

Proprietary Fund

***Construction Assistance Revolving Loan Fund (the "Fund")* -** ADFA issues special obligation bonds on behalf of the Fund. The Fund uses the proceeds to support operations. The Fund is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities. The bonds are payable solely from loan repayments, interest on investments, and financing fees generated by the Fund. The State is not obligated to pay the bonds, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or redemption price or interest on the bonds.

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 1999, were as follows (expressed in thousands). The principal amount shown differs from the amount on the combined balance sheet due to unamortized discounts of $1.3 million:

	Principal	Interest	Total
Year Ending June 30:			
2000	$ 3,535	$ 6,084	$ 9,619
2001	3,705	5,918	9,623
2002	4,225	5,738	9,963
2003	4,690	5,532	10,222
2004	4,930	5,304	10,234
Thereafter	98,290	40,661	138,951
Total	$119,375	$69,237	$188,612

Higher Education Fund

***Colleges and Universities* -** The Boards of Trustees of State-supported colleges and universities are authorized to issue revenue bonds and notes for the purpose of financing all or part of the acquisition of land, the construction or renovation of buildings and the acquisition of furnishings or equipment for any such buildings of all State colleges and universities. The bonds, which are not general debt of the State, are payable from student tuition and other fees.

At June 30, 1999, college and university revenue bonds and notes payable outstanding were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Henderson State University	2020	3.00 - 9.00	$ 11,036
Southern Arkansas University - Magnolia	2014	3.00 - 8.75	9,036
Southern Arkansas University Tech - Camden	2015	4.80	740
Arkansas State University - Beebe	2012	3.00 - 7.04	5,653
Arkansas State University - Jonesboro	2009	3.00 - 7.50	40,585
Arkansas State University - Mountain Home	2018	5.00	6,295
Arkansas Tech University	2016	2.88 - 7.50	2,141
University of Arkansas at Fayetteville	2022	variable	86,262
University of Arkansas at Little Rock	2014	2.78 - 6.00	30,366
University of Arkansas for Medical Sciences	2019	1.40 - 8.65	94,366
University of Arkansas at Monticello	2004	2.88 - 4.50	5,666
University of Arkansas at Pine Bluff	2027	3.63 - 7.01	11,633
University of Central Arkansas	2026	2.75 - 8.00	46,025
University of Arkansas at Hope Community College	2018	5.75	7,870
University of Arkansas at Batesville Community College	2012	3.50 - 6.00	4,000
East Arkansas Community College	2012	3.50 - 6.00	1,900
Garland County Community College	2017	5.50 - 6.50	3,835
Mid-South Technical College	2018	4.60 - 6.12	10,765
Mississippi County Community College	2018	5.40 - 6.00	3,315
North Arkansas Community Technical College	2016	5.37 - 6.50	3,037
Phillips Community College of the University of Arkansas	2000	8.00	6,403
Rich Mountain Community College	2005	3.60 - 5.30	515
Westark College	2017	4.00	27,910
Northwest Arkansas Community College	2012	4.25 - 5.80	4,605
Petit Jean College	2017	4.88	2,500
Pulaski Technical College	2014	variable	4,650
Total			$ 431,109

Future amounts required to pay principal and interest on college and university revenue bonds and notes payable as of June 30, 1999, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2000	$ 19,286	$ 17,081	$ 36,367
2001	24,640	16,464	41,104
2002	20,625	15,530	36,155
2003	21,159	14,690	35,849
2004	20,313	13,861	34,174
Thereafter	325,086	114,239	439,325
Total	$431,109	$191,865	$622,974

Component Units -

Arkansas Student Loan Authority **-** Revenue bonds are issued by ASLA pursuant to Act 873 of 1977 to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. Principal and interest payments are made from specifically dedicated revenues generated by ASLA. Revenue bonds do not constitute general debt of the State.

Revenue bonds outstanding at June 30, 1999, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Student Loan Revenue Bonds, Series 1991	2002	4.75 - 7.15	$ 950
Student Loan Revenue Bonds, Series 1992A-1	2006	5.25 - 6.40	44,180
Student Loan Revenue Bonds, Series 1992A-2	2006	6.13 - 6.75	4,695
Student Loan Revenue Bonds, Series 1993A-1	2006	5.00 - 6.13	4,540
Student Loan Revenue Bonds, Series 1994A	2009	adjustable	53,400
Student Loan Revenue Bonds, Series 1994B	2009	7.25	6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	adjustable	42,900
Student Loan Revenue Refunding Bonds, Series 1996B	2010	6.25	14,000
Student Loan Revenue Bonds, Series 1997A	2014	adjustable	31,150
Student Loan Revenue Refunding Bonds, Series 1997B Revenue Bonds	2014	5.10 - 5.60	17,400
Total			$219,815

Future amounts required to pay principal and interest on revenue bonds at June 30, 1999, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2000	$ 4,745	$ 11,354	$ 16,099
2001	17,710	10,801	28,511
2002	13,520	9,837	23,357
2003	6,860	9,234	16,094
2004	3,620	9,088	12,708
Thereafter	173,360	40,913	214,273
Total	$219,815	$ 91,227	$311,042

Revenue Bonds are reflected in the financial statements net of approximately $34 thousand of discounts.

Arkansas Development Finance Authority **-** Pursuant to Act 1062, ADFA is authorized and empowered to issue bonds and various other debt instruments for the purpose of financing qualified agricultural business enterprises, capital improvement facilities, educational facilities, health care facilities, housing developments and industrial enterprises.

Bonds and other debt instruments issued by ADFA are special obligations of ADFA payable solely from and collateralized by a first lien on the proceeds, monies, revenues, rights, interests, and collections pledged therefore under the resolutions authorizing the particular issues. The State is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal or redemption price of or interest on the bonds and other debt instruments. ADFA has no taxing power.

Bonds payable at June 30, 1999, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rates %	Balance
Single Family Bonds Payable	2030	3.70 - 11.42	$ 903,636
Multi-Family Bonds Payable	2027	4.15 - 9.40	206,268
Development Finance Programs Bonds Payable	2030	3.50 - 10.60	266,433
Total			$1,376,337

Future amounts required to pay principal and interest on ADFA debt at June 30, 1999, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized premiums of $1.7 million:

	Principal	Interest	Total
Year Ending June 30:			
2000	$ 74,349	$ 78,536	$ 152,885
2001	39,369	76,538	115,907
2002	40,574	74,075	114,649
2003	42,241	71,357	113,598
2004	46,606	68,449	115,055
Thereafter	1,131,478	808,424	1,939,902
Total	$1,374,617	$1,177,379	$2,551,996

Current Year Defeasances

Primary Government –

On December 1, 1998, Henderson State University issued $2.68 million Board of Trustees of Henderson State University Student Fee Secured Refunding Bonds, Series 1998 to defease $2.615 million Student Fee Secured Refunding Bonds, Series 1992. All bond proceeds were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to reduce the aggregate debt service payment by approximately $400,000 over the next 18 years. The economic gain (difference between present value of the old and new debt service payments) resulting from the refunding is $300,000.

On December 1, 1998, University of Central Arkansas issued a $6.17 million Board of Trustees of University of Central Arkansas Academic Facilities Refunding Bond, Series 1998 to defease $1.29 million Refunding Bond, Series 1992B. Bond proceeds of $3.5 million were used for capital improvements relating to technology fields, while proceeds of $800 thousand were used for construction of the Donald W. Reynolds Performance Hall. The remaining proceeds were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to reduce the aggregate debt service payment by approximately $500 thousand over the next six years. The economic gain (difference between present value of the old and new debt service payments) was approximately $10 thousand.

Prior Defeasances

***Primary Government* -**

In prior years, the State defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $127 million are considered defeased at June 30, 1999.

***Component Units* -**

In prior years, ADFA defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $78.1 million are considered defeased at June 30, 1999.

NOTE 11: LEASES

The State has entered into various lease agreements with the private sector, primarily for buildings and equipment. These agreements are for various terms with most containing clauses indicating that their continuation is subject to continuing appropriation by the Legislature. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease.

The State also has lease agreements for buildings and equipment which are accounted for as capital leases. FASB Statement No. 13, *Accounting for Leases*, requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a fixed asset and the incurrence of an obligation by the lessee. Capital leases for the nongovernmental funds are reported as a long-term obligation in those funds along with the related assets. Capital leases for the Governmental Funds are reported in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group.

The State also has direct-financing lease agreements with ADFA. These leases are reported separately from other capital leases in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group.

Most of these leases contain a fiscal funding addendum stating that the lease shall terminate on the last day of the fiscal year if appropriated funds for the ensuing fiscal year are insufficient. However, these leases are accounted for as capital leases and are considered non-cancelable for financial reporting purposes.

Future minimum commitments under operating and capital leases by fund type as of June 30, 1999, were as follows (expressed in thousands):

	Capital Leases	
	GLTDAG	Higher Education Fund
Year Ending June 30:		
2000	$ 7,017	$ 2,049
2001	6,445	1,542
2002	6,285	1,144
2003	3,268	542
2004	2,795	249
Thereafter	5,975	59
Total Minimum Lease Payments	31,785	5,585
Less: Interest	(5,493)	(706)
Present Value of Future Minimum Lease Payments	$ 26,292	$ 4,879

	Capital Leases with Component Unit		
	GLTDAG	Proprietary Fund	Higher Education Fund
Year Ending June 30:			
2000	$ 7,747	$ 239	$ 150
2001	7,948	244	150
2002	7,948	242	150
2003	7,944	241	150
2004	7,929	244	150
Thereafter	62,451	1,932	404
Total Minimum Lease Payments	101,967	3,142	1,154
Less: Interest	(30,860)	(1,106)	(207)
Present Value of Future Minimum Lease Payments	$ 71,107	$ 2,036	$ 947

	Operating Leases		
	General Government	Proprietary Fund	Higher Education Fund
Year Ending June 30:			
2000	$ 11,054	$ 199	$ 2,613
2001	7,860	83	1,762
2002	3,668		1,208
2003	2,467		1,210
2004	1,542		822
Thereafter	6,610		145
Total Minimum Lease Payments	$ 33,201	$ 282	$ 7,760

NOTE 12: FUND EQUITY

Designations

Detail of designated general fund balance as of June 30, 1999, is as follows (expressed in thousands):

Continuing appropriations	$ 80,216
Budget stabilization	1,327,161
Total (memorandum only)	$1,407,377

Designations for budget stabilization reflect the intent of Arkansas financial laws with regard to future use of current financial resources.

Deficit Retained Earnings

The WCC had a $14 million deficit in retained earnings as of June 30, 1999. The deficit was generated by a change in actuarial assumptions during the fiscal year ended June 30, 1997. If the deficit is not eliminated by normal operations, WCC has the ability to change the investment strategy to receive larger investment returns or increase the threshold of claims submitted to the WCC.

The Other Revolving Loan Funds had a $230 thousand deficit in retained earnings as of June 30, 1999. Management of the Other Revolving Loan Funds is confident that the deficits will be eliminated through normal operations.

Contributed Capital

The changes in the State's contributed capital accounts for its proprietary funds were as follows:

	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
Beginning balance, as adjusted	$114,504	$5,931	$120,435
Capitalization of federal grants	4,058	2,017	6,075
Ending balance	$118,562	$7,948	$126,510

NOTE 13: PENSIONS

Plan Descriptions - The State contributes to three single-employer defined benefit pension plans: Arkansas Judicial Retirement Plan (“Judicial”), Arkansas Highway and Transportation Retirement Plan (“Highway”) and State Police. State Police and Judicial are administered by Arkansas Public Employees Retirement System, and Highway is administered by the plan itself. Each plan provides retirement, disability, and death benefits, in accordance with benefit provisions as established and amended by State Statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Judicial Retirement Plan	Arkansas Highway and Transportation Retirement Plan	Arkansas State Police Retirement Plan
One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855	P. O. Box 2261 Little Rock, AR 72203 (501) 569-2000	One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855

The State also contributes to two cost-sharing multiple-employer defined benefit plans: Teacher, administered by the Arkansas Teacher Retirement System Board of Trustees, and APERS, administered by the Arkansas Public Employees Retirement System Board of Trustees, which provide retirement, disability and death benefits, and annual cost of living adjustments to plan members and beneficiaries. Benefit provisions are established and amended by state statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Teacher Retirement Plan	Arkansas Public Employees Retirement Plan
1400 West Third Street Little Rock, AR 72201 (501) 682-1517	One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855

For the year ended June 30, 1999, the payroll of State employees covered by the pension plans was approximately $815 million.

Funding Policies **-** State statute establishes the contribution requirements of plan members and the State. The State's annual pension cost for the current year and related information for each plan is as follows:

	Judicial	Teacher	State Police	Highway	APERS
Number of participating employers/contributing entities	1	428	1	1	797
Contribution rates for the fiscal year ended June 30, 1999 (% of covered payroll):					
State	24.22 %	12.00 %	30.82 %	12.90 %	10.00 %
Plan members - contributory plans	5.00-6.00%	6.00 %	0.00 %	6.00 %	6.00 %
Annual pension cost (in thousands)	$3,150	$166,786	$6,491	$14,499	$93,323
Contributions made (in thousands)	$4,069	$166,786	$6,748	$14,499	$93,323

The required contribution amounts and the percentage contributed for Teacher and APERS for the current year and each of the two preceding years are as follows:

Fiscal Year	Plan	Annual Required Contribution	Percentage Contributed
1999	Teacher	$166,786	100 %
	APERS	93,323	100 %
1998	Teacher	$158,963	100 %
	APERS	87,529	100 %
1997	Teacher	$153,546	100 %
	APERS	82,051	100 %

State Police and APERS consist of both a contributory plan, which has been in effect since the beginning of the plans, and is available to all persons who became members prior to January 1, 1978; and a non-contributory plan, which was created by Act 793 of 1977 and was effective January 1, 1978. The non-contributory plan applies automatically to all persons hired January 1, 1978, or later. All non-retired members of the State Police are now covered by non-contributory benefits. Members of the Teacher plan contribute 6% of their salaries, except for members who became members before July 1, 1971, who can contribute only on the first $7,800 of their annual salary; and effective July 1, 1993, all new members, including any former active members, were automatically enrolled as non-contributory members. By individual election, members of the Teacher plan may choose to contribute. Active members of the Judicial plan contribute 6% of their salaries. Members of the Judicial plan with 20 or more years of service and members age 65 or older with ten or more years of service do not contribute to the plan. Active members of the Highway plan contribute 6% of their salaries.

Included in the June 30, 1999, investment portfolio of APERS and the State Police plans are the following investments (other than these issued by the U.S. Government) in any one organization that represent 5% or more of plan net assets:

State Police - Biam Group International Equity Fund	$ 31,990,866
APERS - Brinson Equity Fund	199,133,110
S&P 500 Index Fund	306,668,501
Wellington Mortgage Backed Securities Fund	373,956,459

The Teacher, Highway, and Judicial plans did not have investments of any commercial or industrial organization whose market value equals 5% or more of the individual plan's net assets available for benefits.

The State's 1999 contribution to APERS represented 75.1% of total contributions required of all participating entities. Beginning with the 1997 fiscal year, the State no longer contributes to Teacher. As required by Act 1194 of 1995, the State increased the local state supported school appropriations so that such retirement contributions come directly from the school districts.

The State's annual pension cost and net pension obligation to State Police for the current year is as follows (in thousands):

Annual required contribution ("ARC")	$ 6,398
Interest on net pension obligation	424
Adjustment to annual required contribution	(331)
Annual pension cost	6,491
Contributions made	6,748
Decrease in net pension obligation	(257)
Net pension obligation, beginning of year	5,466
Net pension obligation, end of year	$ 5,209

The State has a net pension asset of approximately $10.5 million for Judicial at June 30, 1999. For Highway, the statutory contributions made by the State equaled the annual required contributions ("ARC") required by GASB 27 for each of the fiscal years that began between December 15, 1986 and June 30, 1996, and therefore the State has neither a transition asset or liability.

No pension liability exists for Teacher or APERS, as the State's contributions to each respective plan for the year ending June 30, 1999, was equal to the ARC.

Three-year trend information for the single-employer plans is as follows:

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Judicial	06/30/1999	$ 3,150	129.17 %	$ (10,504)
	06/30/1998	3,183	143.42 %	(10,493)
	06/30/1997	3,613	148.93 %	(10,040)
State Police	06/30/1999	$ 6,491	103.96 %	$ 5,209
	06/30/1998	6,632	108.75 %	5,466
	06/30/1997	7,066	86.48 %	6,046
Highway	06/30/1999	$14,499	100.00 %	N/A
	06/30/1998	13,976	100.00 %	N/A
	06/30/1997	14,851	100.00 %	N/A

Higher Education

All active higher education employees who work 20 or more hours a week have the option of participating in either APERS, Teacher or the Teachers Insurance Annuity Association - College Retirement Equities Fund ("TIAA-CREF") or the Fidelity Fund.

TIAA-CREF and the Fidelity Fund were established by the Board of Trustees of each respective college or university. These funds represent a defined contribution plan as set forth in Section 403(b) of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Each college or university contributes a percentage of an employee's salary, ranging from 5% to 10%, to a TIAA-CREF or Fidelity Fund retirement account, allocated between the two funds according to the employee's choice. In addition, employees may make voluntary contributions of any amount up to the individual maximum allowance. During 1999, total employer contributions to TIAA-CREF and Fidelity were $34,283 thousand and $4,566 thousand, respectively. Employee contributions to TIAA-CREF and Fidelity were $28,883 thousand and $4,696 thousand, respectively.

NOTE 14: SEGMENT INFORMATION - ENTERPRISE FUND

Segment financial information for the State's enterprise funds is as follows (expressed in thousands):

Description	Workers' Compensation Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds
Operating revenues	$ 19,098	$ 10,211	$ 447
Depreciation and amortization	210	259	
Operating income (loss)	(9,244)	2,689	(502)
Operating transfers out	162		
Net income (loss)	(2,676)	2,689	(502)
Contributed capital additions		4,058	2,017
Fixed asset additions	151		54
Net working capital	142,440	242,026	7,625
Total assets	169,986	248,949	9,313
Long-term liabilities payable from operating revenues	170,156	118,058	
Fund equity (deficit)	(14,022)	126,007	7,718

NOTE 15: COMPONENT UNIT DISCLOSURES

The financial statements do not include the financial position or results of operations of foundations or other organizations affiliated with certain higher education institutions. Such organizations are separate nonprofit entities incorporated in the State. Their purpose is to assist affiliated higher education institutions in performing their work and services. Oversight of each organization is the responsibility of separate and independently elected boards of directors not otherwise affiliated with their respective higher education institutions. In carrying out their responsibilities, the boards of directors of the organizations employ management, form policy, and maintain fiscal accountability over funds administered by their respective organizations.

Condensed financial statements of discretely presented component units at June 30, 1999, are as follows (expressed in thousands):

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
Balance Sheet			
Assets:			
Other Assets	$ 236,025	$ 1,556,841	$ 1,792,866
Fixed Assets, net	20	475	495
Total Assets	$ 236,045	$ 1,557,316	$ 1,793,361
Liabilities:			
Other Liabilities	$ 3,933	$ 59,199	$ 63,132
Revenue Bonds Payable	219,781		219,781
Special Obligation Bonds Payable		1,376,337	1,376,337
Total Liabilities	223,714	1,435,536	1,659,250
Fund Equity -			
Retained Earnings	12,331	121,780	134,111
Total Equity	12,331	121,780	134,111
Total Liabilities and Equity	$ 236,045	$ 1,557,316	$ 1,793,361
Statement of Operations			
Operating Revenues	$ 17,215	$ 81,489	$ 98,704
Operating Expenses	(13,513)	(104,086)	(117,599)
Depreciation and Amortization	(932)	(5,520)	(6,452)
Operating Income (Loss)	2,770	(28,117)	(25,347)
Non-Operating Revenues			
Operating Grants		17,182	17,182
Net Income (Loss)	2,770	(10,935)	(8,165)
Equity - Beginning of Year, as Adjusted (Note 6)	9,561	132,715	142,276
Equity - End of Year	$ 12,331	$ 121,780	$ 134,111

The above discretely presented component units of the State do not issue classified balance sheets; therefore, information regarding current assets and current liabilities is unavailable.

NOTE 16: RISK MANAGEMENT PROGRAM

The following describes the risk management programs administered by the State. There have been no significant reductions in insurance coverage from the prior year.

Health and Life Plans

The State established the State Employees Insurance Advisory Committee (the "Committee") by Act 48 of 1972 and allowed the Committee to pursue self funding activities by Act 576 of 1975. The Committee provides comprehensive major medical care, prescription drug and life insurance (the "Plans") for employees of the State and its participating component units, as well as their dependents through the establishment of a variety of self-insured plans. The Committee also makes medical coverage available to retirees should they elect to continue such coverage at their own expense. The employee has the option of choosing among the various Plans. Coverage is funded by contributions from the State, participating component units, and participating employees and retirees to the Plans. The Plans are administered by third parties who are responsible for the processing of claims and administration of cost containment.

The Plans pay most expenses that are medically necessary and eligible for coverage based on usual, customary, and reasonable allowances. Claims are subject to specified annual deductible and co-payment requirements. The Plans are also subject to varying lifetime benefit maximums.

The Committee also acts as an intermediary for the public school employees' health insurance as offered by the various school districts throughout the State. In this capacity, the Committee received premium payments which are not included in the accompanying financial statements amounting to approximately $132 million during 1999. The Committee remits the premium payments to third party insurance companies who fully insure the public school employee group. The Committee provides prescription drug insurance to the public school employees and their dependents within the prescription drug plan offered to the employees of the State, its participating component units, and their dependents. The Committee assumes risk of loss and is the predominant participant in the Plans. Premiums are funded through contributions from the school districts and the public school employees.

Basic term life insurance (death benefit) is provided to all State employees with varying amounts of coverage based on the classification of the employee. This basic coverage is provided at no cost to the employee and is funded by contributions from the State. Additional amounts of coverage are available to the employees, retirees and their dependents and the cost of such additional coverage is funded by employee contributions. The plan is administered by a third party who is responsible for processing of claims.

Claim liabilities for the Plans for the employees of the State and the prescription drug plan for the public school employees are based on actuarial estimates of the ultimate cost of claims that have been incurred (both reported and unreported) and are recorded in the general fund. An analysis of changes in aggregate liabilities for claims and claims adjustment expenses for the current and prior fiscal year are as follows (expressed in thousands):

	1999	1998
Claim liability, beginning of year	$ 16,252	$ 18,913
Incurred claims	128,851	130,229
Claims payments	(127,733)	(132,890)
Claim liability, end of year	$ 17,370	$ 16,252

The Plans have not purchased any annuity contracts on behalf of claimants.

Risk Management Office

The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies. Accordingly, State agencies retain the ultimate decision authority over whether to purchase commercial insurance coverage for property losses.

For those State buildings covered by commercial insurance, the building and contents are generally insured for the full amount of losses subject to varying deductible amounts up to $25 thousand per occurrence. Losses arising from earthquakes are generally insured for the full amount of losses subject to a deductible of 5% of the building's value. Certain State agencies have chosen not to purchase commercial insurance on certain buildings, and as such, losses are recorded as expenditures in the General Fund when paid.

The State does not purchase liability insurance coverage for claims arising from third party losses on State property as the State has sovereign immunity against such claims. Claims against the State for such losses are heard before the State Claims Commission.

For those State vehicles covered by commercial insurance, the vehicle is generally insured for the full amount of losses subject to varying deductible amounts. Also, such commercial insurance generally provides coverage against liability losses up to $100 thousand per occurrence in state and $500 thousand per occurrence out of state. Certain State agencies have elected not to purchase commercial insurance for certain vehicles and losses on such vehicles are recorded as expenditures in the General Fund as paid. Liability losses arising from uninsured vehicles are heard and adjudicated by the State Claims Commission.

There have been no instances in the past three fiscal years wherein the amount of commercial insurance settlements have exceeded insurance coverage.

State Claims Commission

The State Claims Commission was established by State law to hear and adjudicate all claims against the State and its agencies and component units excluding those arising from workers' compensation law, employment security law and the acts of the various retirement plans. According to State law, only claims for actual damages are allowed. The Commission may authorize awards for actual damages up to $7.5 thousand without further approval while amounts exceeding $7.5 thousand must be approved by the State General Assembly. The claim liability is determined by review of pending claims and estimation of the ultimate cost to settle such claims and is recorded in the General Fund.

State Workers' Compensation Plans

The State's Workers' Compensation Program (the "Program") was created by State law to provide benefits to State employees injured on the job. All employees of the State and its component units are included in the Program. Prior to July 1, 1994, employees of state sponsored school districts in the State were also included in the plan, and the State continues to pay benefits to those employees injured prior to that date. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Losses payable by the Program include medical claims, loss of wages, disability and death benefits.

The Program is self-insured and is administered by the Public Employees Claims Division of the State Insurance Department. Each State agency is responsible for contributing to the Program each year an amount determined by the division based on past claims experience. The State's liability for claims at June 30, 1999, including claims incurred but not reported, is estimated to be approximately $66 million and is recorded in the General Long-Term Debt Account Group as a component of claims and judgments payable.

The State also provides two forms of loss protection to employers and insurance companies operating in the State to minimize workers' compensation claims paid for wage losses. The first such plan was created by state law and is known as the Death & Permanent Total Disability Trust Fund ("Disability Trust Fund"). The Disability Trust Fund pays wage loss benefits in excess of $75 thousand per case. The employer's primary insurer is responsible for the first $75 thousand per case. The Disability Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the State and by assessments on self-insured employers as if they were commercially insured. The liability of the Disability Trust Fund at June 30, 1999, is based on actuarial estimates of ultimate claim costs, for both reported and unreported claims, discounted at 5% and is recorded in the Workers' Compensation Commission Enterprise Fund.

The second such plan was created by State law and is known as the Second Injury Trust Fund. The Second Injury Trust Fund generally pays wage loss benefits for persons which experience a repeated injury of the same body part while employed by a different employer than that which he experienced the first injury. The purpose of the Second Injury Trust Fund is to encourage the employment of persons who have previously filed workers' compensation claims by protecting subsequent employers from wage loss claims arising from repeat injuries. The Second Injury Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the state and by assessments on self-insured employers as if they were commercially insured. The claim liability is estimated by discounting at 5% the expected future claim payments of reported claims and is recorded in the Workers' Compensation Commission Enterprise Fund.

The Disability Trust Fund and the Second Injury Trust Fund are administered by the WCC. Changes in the combined balance of the Disability Trust Fund and Second Injury Trust Fund during the current fiscal year are as follows (expressed in thousands):

	1999	1998
Claim liability, beginning of year	$ 159,735	$ 152,179
Incurred Claims	18,260	15,715
Claim Payments	(9,875)	(8,159)
Claim liability, end of year	$ 168,120	$ 159,735

Petroleum Storage Tank Trust Fund

The Petroleum Storage Tank Trust Fund ("Storage Tank Fund") was established according to State law to provide owners and operators of petroleum storage tanks in the State protection from losses associated with accidental releases from qualified storage tanks. In order for a storage tank to qualify under the Storage Tank Fund it must be registered with all fees paid and meet certain construction and spill protection and detection standards at the time of the release. The Storage Tank Fund will pay first party claims for corrective action up to $1 million per occurrence with a $25 thousand deductible as well as third party claims for damages up to $1 million per occurrence with a $25 thousand deductible. The Storage Tank Fund is funded by motor fuel taxes and fees paid by storage tank owners and operators. The first party claim liability is determined through the use of engineering estimates of the remaining corrective action for each site. The third party claim liability is estimated at the plan limits for each third party claim filed until actual damages are determined and the liability is recorded in the General Long-Term Debt Account Group.

Changes in the balance of the Storage Tank Fund claim liability during the current fiscal year are as follows (expressed in thousands):

	1999	1998
Claim liability, beginning of year	$ 9,594	$ 9,472
Incurred Claims	1,675	2,689
Claim Payments	(2,824)	(2,567)
Claim liability, end of year	$ 8,445	$ 9,594

Higher Education Health Plans

The System and Arkansas State University ("ASU") sponsor self-funded health plans for employees and their eligible dependents. All five System campuses, all ASU campuses, state-wide operating units of the Arkansas Archeological Survey and Division of Agriculture, System Administration and the System Foundation participate in the health insurance programs which are administered by third parties who are responsible for the processing of claims and administration of cost containment.

The universities pay a portion of the total premium for full time active employees, while retirees and former employees participate on a fully contributory basis.

Changes in the balance of the System and ASU claim liability during the current fiscal year are as follows (expressed in thousands):

	1999	1998
Claim liability, beginning of year	$ 8,642	$ 6,063
Incurred Claims	47,013	42,957
Claim Payments	(45,415)	(40,378)
Claim liability, end of year	$ 10,240	$ 8,642

The universities purchase specific reinsurance to reduce their exposure on large claims. Under the specific arrangement, the reinsurance carrier pays for claims for covered individuals which exceed specified limits. Such limits are $250 thousand and $100 thousand for the System and ASU, respectively.

The plans have not purchased any annuity contracts on behalf of claimants.

NOTE 17: COMMITMENTS AND CONTINGENCIES

Primary Government -

Litigation - The State, its agencies and employees are defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to, claims assessed against the State for property damage and personal injury, alleged inmate wrongs, other alleged torts, alleged breaches of contract, condemnation proceedings, challenges of state law and other alleged violations of state and federal laws. Certain claims have been adjudicated against the State, but remained unpaid by the State as of the balance sheet date. The State has accrued liabilities in the approximate amount of $9.7 million for the payment of such claims. For other cases which it is reasonably possible that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General and other counsel estimate the liability to be approximately $43.5 million.

The State is also involved in a federal school desegregation lawsuit. The State has accrued approximately $2.6 million for the settlement of these suits.

UAMS was notified that it was the subject of a review being conducted by the United States Department of Health and Human Services Office of Inspector General ("OIG"), under its Physicians at Teaching Hospitals ("PATH") initiative. This program was initiated by the OIG with the intention of reviewing all teaching hospitals in the United States. The program is focused on Medicare billing procedures relative to teaching physicians. UAMS has had initial meetings with the OIG and furnished certain information requested. Elsewhere in the United States, the OIG has settled with teaching hospitals for amounts considerably in excess of $1,000,000 and has found at least one teaching hospital to be without liability. In 1997 the OIG took steps to terminate certain ongoing audits and UAMS was advised that its audit was one selected for termination. However, a subsequent review of Medicare billings was commenced by the OIG. UAMS has recently been notified that this audit is being suspended by the OIG, however, to be reopened. UAMS management believes that its billing practices comply with all applicable laws and regulations and that the PATH initiative will not have a material effect on the financial position of UAMS.

It is not possible to predict with certainty or exactitude the ultimate outcome of all lawsuits pending or threatened against the State, including those discussed above. Based on the current status of all of these legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of management and the Attorney General that the proceedings will not have a material adverse impact on the State's financial position.

Federal Grants **-** The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and federal revenue sharing entitlements. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits under either the Federal Single Audit Act or by grantor agencies of the Federal Government or their designees. At June 30, 1999, the amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the State expects such amounts, if any, to be immaterial.

Loan Forgiveness **-** Under the provisions of the Pulaski County Desegregation Settlement Agreement, the State agreed to provide loans to the Little Rock School District ("LRSD"). If the composite test scores of the LRSD minority students reach a specified level before December 1, 2001, any outstanding loan balance will be forgiven. The standard by which the test scores will be measured has yet to be determined by the parties. As of June 30, 1999, the State's loan receivable is $20 million and is recorded in the General Fund.

Construction and Other Commitments **-** At June 30, 1999, the State has commitments of approximately $633 million for construction and other contracts. The Soil and Water Conservation Commission has approved $37.6 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 1999. Teacher has also extended lines of credit in the amount of $5 million to ADFA, all of which was unused at June 30, 1999.

Bond Guarantees **-** The AEDC Bond Reserve Guaranty Fund is used to guarantee amortization on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 1999, total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately $38.8 million. AEDC has committed to guarantee $2 million in industrial development revenue bonds that have not closed at June 30, 1999.

Claims Incurred but not Reported **-** The State has established a liability for both reported and unreported insured events, which includes estimates of future payments of claims and related claim adjustment expenses, based on the estimated ultimate cost of settling claims. In estimating its liability for incurred but unpaid claims, the State considers prior experience, industry information and currently recognized trends affecting data specific to the State. Because actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease and inflation, the process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates.

Compensated Absences **-** State employees earn vacation leave benefits on the basis of length of service time. Subject to certain restrictions, state employees are compensated for unused vacation time upon leaving the State's employment. Unused vacation time for employees of the governmental funds is accrued in the General Long-Term Debt Account Group.

Arbitrage Rebates **-** The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. The Construction Assistance Revolving Loan Fund and ASLA have made provisions for revenues above the rebate limit which must be remitted to the Federal Government.

NOTE 18: SUBSEQUENT EVENTS

Component Units **-** Subsequent to June 30, 1999, ADFA issued approximately $65 million in special obligation bonds in the Single Family Housing Program Fund, $23 million in special obligation bonds in the Multi-Family Housing Program Fund, and $24 million in special obligation bonds in the Economic Development Programs Fund.

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